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MEMORANDUM

SUBJECT: The Philippines: New Society, Old Problems

From the beginning, President Marcos has justified martial law on two grounds: that the country was threatened by a Communist-led political conspiracy and that extra-constitutional measures were needed to combat widespread social and economic decay. Few Filipinos believe the allegations of an anti-government plot were anything more than a ploy to satisfy the constitutional requirements for declaring martial law. Nonetheless, they have tolerated one-man rule in the hope that Marcos will thereby realize the widespread reforms and create the "New Society" he has promised.

Tacit Public Support

Efforts to oppose Marcos' control under martial law have come to nothing. The judiciary has been in no position to resist the President, nor could it hope to enforce an anti-Marcos ruling. Traditional political groups, unskilled in clandestine operation, have been exposed almost as soon as they appeared. Marcos has also undermined their traditional source of power--wealthy patrons, who sought to protect their own interests by having a "man" in government. Marcos has used martial law to intimidate thoroughly these vested interests--threatening their property and holding close relatives as hostages to ensure their cooperation. Most commercial barons have found in fact that martial law is good for business--labor organizers have been suppressed, radical political activists have been cleaned out, and the disappearance of elected officials has decreased the numbers of bribes and extra-legal business expenses. Most of the so-called oligarchs as a result have quietly accommodated to the new order and put some distance between themselves and the anti-Marcos politicians of the old order.

University students and teachers, the most irreconcilable Marcos critics prior to martial law, have also shown little enthusiasm for anti-regime politics in recent

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months. Under martial law, many more student and faculty members have been detained and the police have kept universities under close surveillance. The air of suspicion and fear that pervades most campus communities makes political action difficult; students suspect any stranger of being a government informer.

The one area where the President faces increasing opposition is the Catholic Left. Although still a minority in the Catholic Church, the liberals have easy entree to all levels of society, a ready-made communications network, and significant organizational skills. Under martial law several priests and nuns have been arrested and Church buildings searched. Marcos has tried to balance these repressive acts by opening a dialogue with some of the more moderate clergy, but the priests and the government find few common talking points. Most politically active clergy are still reformists, not revolutionaries, but if they continue to be frustrated in their efforts to change the government by "gentle persuasion," their radicalization may be inevitable. In time, Catholic dissent in the Philippines could, as has already happened in some Latin American countries, develop into an "underground Church" in league with left-wing insurgents.

The ability of any anti-Marcos group to organize a significant opposition movement will depend on the growth of popular frustration with the new order. Marcos has thus far managed to achieve broad popular acceptance for martial law.

Not everyone sees martial law as an improvement, but most see it as no worse than the old system. Rural Filipinos in particular can see some improvement in their daily lives. Gun control measures and government pressure against the goon squads of local landlords and politicians have decreased the amount of petty extortion and harassment that formerly plagued poor farmers. Despite delays in the implementation of land reform, peasants still hope and expect that their turn will come.

Benefits to urban areas under martial law are less evident, although urban residents are longtime enemies of Marcos and probably hard to impress. The urban middle class never liked Marcos and they have been less willing to tolerate his one-man rule. Their sons and daughters crowd the universities and graduate to unemployment. They are beleaguered by rising prices for food, fuel and services.

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Marcos and the Military

Marcos has not only centralized administration under martial law but has "personalized" it as well. Activities of the Marcos family dominate the government-controlled media and every plan or benefit with any significance is attributed directly to some act of Marcos or his wife. This budding personality cult is potentially a risky business--when difficulties arise, Marcos will have difficulty shrugging off the blame on others. Moreover his sudden death or incapacitation would leave a power vacuum resulting in divisive competition among various aspirants for power. The unsolved succession problem has created some difficulties already. Foreign businessmen, for example, have expressed doubts about the long-term investment prospects if they cannot be certain of an orderly succession. Marcos reportedly has made a secret political testament, but there is little guarantee that it would be honored by those ambitious to fill a power vacuum caused by his sudden departure.

Military leaders will form an important element in any post-Marcos regime. The Philippine military, long considered one of the most professional and least political in Southeast Asia, has taken on a new broader role under martial law. Marcos began subtly changing the military's character and preparing it for a political role prior to 1972. Politically dependable officers were gradually moved into top command positions, often being promoted over the heads of more capable men who were not considered personally loyal to Marcos.

With the suspension of regular government bodies under martial law, real authority passed to the local military commander, who became the most visible link between the local level and the central government. Marcos is aware that the military could easily become a political rival, and he has taken steps to assure its loyalty--increasing military pay and fringe benefits, speeding promotions, adding to the number of officer slots, and publicly praising the military's constructive role in the new order. The military has yet to articulate any unique interests different from those of Marcos. Some officers have grumbled about civilian interference with military handling of the Muslim insurgency in the south, but thus far Marcos has been able to soothe the ruffled feathers. There has also been some sentiment that many civilian officials are guilty of backsliding in carrying out martial law reforms, but the military has thus far shown no desire to move against alleged ills without Marcos' orders.

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The Need For Economic Growth

For the past several years, the principal limitation on Philippine economic growth has been setbacks in agricultural production. Poor performance was partly the result of drought, floods and crop diseases, but also of tight credit policies, price controls, and the government's non-funding of promised price supports for high-yielding varieties of rice. Industrial growth has also been sluggish; its average annual growth for the period 1967-72 was a mediocre 6.8 percent. A persistent problem in Philippine industry has been its pronounced domestic market orientation. Relatively high growth rates were achieved in the 1950s under a policy of protection--induced import substitution--which led to high-cost industries unable to compete in export markets. As opportunities for import substitution declined in the 1960s, so did foreign investment, and there was a net outflow toward the end of the decade. The pattern of output changed little during the 1960s, and industry's share of employment remained stable at about 11 percent. Response to incentives introduced in the late 1960s was disappointing. Levels of industrial investment remained stagnant from 1967-72.

Government decree power since martial law has resulted in a flood of economic measures, many of which would have been impossible in the political climate preceding martial law. The power of oligarchic families has been checked, and capable government technocrats who seem more committed to national goals than to parochial interests have thrust out in all directions with far-reaching policy initiatives. A good beginning has been made toward agrarian reform, although the program is likely to run into increasing opposition from landlords as it moves toward the breaking up of smaller landholdings. Marcos must move carefully because many of the small landlords are military men and middle class people whose political support he needs. Changes in industrial incentives have partly removed the built in bias against production for export. The administrative and financial system has been completely revamped, and tax measures stalled for more than a decade in Congress are now an integral part of the fiscal system. Rules and regulations governing foreign investment have been greatly modified. Many obstacles to economic growth remain untouched, but these measures have made a significant start toward correcting some fundamental problems.

The reforms had little to do with the country's superior economic performance in 1973. The marked upswing

was largely fortuitous, but it gave the Philippine economy a cushion it has lacked for many years and bought time for the reforms to have some impact. Agricultural recovery due mainly to favorable weather and a record balance of payments surplus resulting mainly from the spectacular rise in world demand for primary products produced an economic growth rate in 1973 of 8-10 percent, a sharp contrast with the mediocre 5.5 percent average annual rate from 1967 through 1972. The rise in manufacturing output in 1973 was 8.7 percent. Foreign exchange reserves at the end of the year totaled \$876 million compared with only \$282 million a year earlier.

The outlook for this year is decidedly less good. Growth will probably slow to about 6 percent. A major problem is that while the government has been successful in lining up new sources of fertilizer imports, there is still a question as to whether supplies will arrive in time for the major rice planting that begins in June. Even with favorable weather and timely fertilizer arrivals, agricultural output is not likely to increase by more than 3-4 percent, compared with 11 percent last year. The government has recently taken measures to reduce institutional barriers to increasing agricultural production and is taking a more active role in provision of credit and extension services. Agricultural output, however, is still dependent on the vagaries of weather and before any real breakthrough is achieved, the government will have to follow through on plans for expansion of flood control and irrigation facilities. Industrial growth is likely to be slowed by high costs and shortages of essential raw materials abroad, and will probably be only on the order of 7 percent. Philippine industry depends heavily on a steady flow of intermediate goods from Japan, and decreased supplies of Japanese steel are already causing some difficulties for a planned expansion of Philippine domestic machinery and electrical equipment industries.

Adequate fuel supplies will be available, but higher costs of crude oil will adversely affect the Philippines' balance of payments--leading to a deficit of perhaps more than \$600 million. Higher prices for other essential imports--chemicals, machinery, transport equipment, iron and steel--will raise the total import bill by 40-50 percent. Export receipts, on the other hand, should drop by 5-10 percent because of reductions in volume and price. Exports of logs and lumber--and perhaps also of coconut products--will be down sharply. Prices for most Philippine exports

have held up well thus far, but are expected to soften later in the second half of the year in response to the economic slowdown in the US and Japan.

With its improved credit rating, the Philippines has encountered little difficulty since martial law in negotiating long term commercial credits to help stabilize foreign exchange reserves. A total of \$500 million in five-year revolving credits has already been arranged with bank consortia in the US, Europe and Japan, and greater amounts are being sought. Inflows of foreign aid and of long term private capital continue to be substantial and should help limit the drawdown of reserves.

The government's most difficult and politically pressing problem is inflation. The effectiveness of price controls has now generally dissipated, and the stabilizing effect of good harvests has been less than hoped for. According to official indices, consumer and wholesale prices were up 27 percent and 51 percent respectively in 1973, and the rise continued to accelerate into 1974. Government countermeasures include an improved tax effort, a cutback in programmed expenditures, and limitation of credit expansion through use of monetary instruments. Further steps have been taken to absorb liquidity by launching an aggressive "savings for progress" campaign and by issuing of Central Bank Certificates of Indebtedness.

Curtailling monetary expansion, however, will only go so far in holding down prices since much of the inflation derives from world market pressures on internationally traded goods. The government intends to continue subsidies on a few import commodities such as rice and fertilizer and to limit exports where necessary to insure adequate domestic supplies at controlled price levels. Price controls have been in effect for some time on domestic sales of sugar and coconut oil, but are difficult to maintain with world prices rising and with supplies moving increasingly into world markets. Since these pressures are likely to increase, particularly on the import side, the government will probably have only limited success in bringing inflation under control over the balance of 1974.

Marcos has given only token response to pressures for higher wages, but he may not be able to hold the line much

longer. Living standards of low income groups--particularly urban workers--have been eroding for some years, and this trend has quickened since martial law. At the end of 1973, real wages for both skilled and unskilled workers in Manila were 20-25 percent below their 1965 level. Marcos has granted a minor cost of living allowance to civil servants, but has made only a feeble request to private industry to follow suit. He opposes raising the minimum wage on the grounds of maintaining the Philippine competitive edge in foreign investment. Since prospects for containing inflation this year are not good, real wages promise to erode still further, possibly at the risk of civil disturbances.

A number of measures have been taken since martial law to restructure the industrial sector and to reverse the outward flow of foreign investment. Tariff reform, a more active government role in channeling investments, and new fiscal incentives are part of a strategy to generate employment and export growth. The government has liberalized its policies on repatriation of capital and remittance of profits in an effort to attract foreign investment. Much will depend on the response of foreign investors to Marcos' enticements. Given the increasing interest in commercial and investment banking, petroleum exploration, mining, manufacturing and services, direct investment should accelerate provided world trade does not move into a recessionary phase.

In any case it will be some time before the structural problems inherited from the policies of the 1960s are corrected and the country is able to take full advantage of its export potential. For the next decade at least, the domestic market is likely to remain crucial to growth in agriculture and real incomes.

Preserve Internal Security

The Philippines has for some time had two active armed insurgencies--a Muslim revolt in the south and a Communist guerrilla movement on Luzon. In addition, the country was plagued by widespread violence committed by a citizenry armed to the teeth and accustomed to settling

political, commercial and personal feuds with a bullet. Among Marcos' first acts under martial law was strict gun control enforced by a constabulary roundup of unlicensed firearms, and arrests of notorious gun smugglers and gangsters. Although the guns collected were only a fraction of those in circulation--and rarely the high-powered firearms--the tough measures have reduced the open carrying of guns which in itself has contributed significantly to law and order.

25X1 Since martial law, Marcos has increased pressure on Communist organizations. The pro-Soviet Communist Party [redacted] Fortunes had been declining for some time. The more important, Maoist-style Communist Party/Marxist Leninist has also suffered under martial law; many of its urban leaders and cadre have been detained and its access to university campuses has been diminished. The party's most prominent campus front, the Kabataang Makabayan student organization, has tried to revive the spirit of student activism but its former power and influence are gone. Martial law has had less success with the Maoists' guerrilla arm, the New Peoples Army. [redacted]

25X1 [redacted] Guerrilla forces are concentrated in the hills of northern Luzon and the Bicol peninsula in southern Luzon and the Philippine armed forces has not vigorously sought them out.

In contrast to the Communist guerrillas, the Muslim insurgency in the southern islands is a significant security threat. Efforts to introduce gun control provisions as part of martial law exacerbated long standing communal tensions between the Muslims of Mindanao and Christians moving in from islands to the north. The Muslim insurgency has significantly worsened since martial law. Marcos is not convinced--as are some of his military commanders--that an armed solution is practical. He is worried about adverse diplomatic consequences and a drawing down of troop strength that would encourage insecurity elsewhere. The armed forces has taken heavy casualties in the south.

The Muslims themselves are divided into several ethnic groups with competing clans and political factions. Such factionalism aids the government's military operations, but

it handicaps negotiation efforts. Where traditional political chiefs still control Muslim communities in Mindanao there is some sentiment for cooperating with Manila. In other areas, especially in the Sulu archipelago, young militants and fanatic religious leaders control the movement and refuse any compromise short of secession from the Philippine state.

Although Marcos has little hope of solving the "Muslim problem," he has managed to contain it. The Muslim areas are relatively unimportant politically and economically and Marcos could live with a low level of endemic insurgency in the South. If the Muslims joined forces with other Philippine dissidents to launch coordinated attacks on government forces, however, the threat to national security could be serious. Maoist organizations are actively trying to organize a united front effort against the government, and some Muslim radicals have reportedly attended Maoist-sponsored organizational meetings. But the prospects of any permanent liaison are dim. The Muslims want secession or autonomy and do not much care what ideology the Manila regime represents. For their part, Christian Filipino radicals would probably be as unwilling as Marcos to allow the southern Philippines to secede.

New Directions In Foreign Policy

Even before martial law, Marcos was calling for an independent Philippine foreign policy which would include expanded relations with Communist states and reduced dependence on the US. Despite much publicity during the past year about bold new foreign policy initiatives, the fundamentals of Philippine international diplomacy have changed very little. Manila still looks to Washington more often than not, and Marcos worries most about the durability of US economic and military support, particularly whether martial law will antagonize US Congressmen and jeopardize aid programs. Marcos is making a massive effort to win support from the large expatriate Filipino community in the US in order to undercut the influence of his opponents abroad. Much money has been spent on literature, cheap "homecoming" fares, and "truth teams" designed to influence public opinion among US based Filipinos, and by extention American citizens as well. Marcos has also tried to reassure American businessmen that the present favorable investment climate will continue. He is putting distance between

himself and the expressions of economic nationalism which characterized political rhetoric both inside the palace and out in the years prior to martial law. In official relations with the US Government, Marcos has tried to play down areas of difference, although as a Philippine nationalist he will bargain hard over economic and military agreement. Marcos seeks to avoid a public cooling of US-Philippine relations out of concern that this would encourage his enemies at home and create international difficulties as well.

Contacts with Communist countries have increased since martial law but little new ground has been broken. Manila has established relations with all the East European states but not with the Soviet Union; none of the new agreements provides for resident ambassadors. Both Moscow and Peking have sent trade delegations--received with suitably great press fanfare--but no trade agreements have been signed and diplomatic ties seem no closer than two years ago. Neither Peking nor Moscow considers the Philippines a primary foreign policy target and Marcos is unlikely to achieve relations on his terms. Even should ties be established, neither Communist state promises to become a major trading partner capable of significantly altering the present pattern of Manila's international economic relationships.

Perhaps the most important change in Philippine foreign policy in the past year is the new initiative toward the Arab states. The focus on the Middle East was not envisioned by Marcos when speaking of the new directions for Philippine foreign policy under martial law. It arose out of necessity when problems with the Muslim minority in the south and a threatened oil shortage caught Marcos at a disadvantage because he had diplomatic relations only with Egypt. He first began broadening contacts with Arab states in early 1973 because he was under constant attack in world Islamic circles by Libyan leader Qadhafi, but the oil shortage accentuated his need for closer ties with Middle East states. Marcos' willingness to abandon neutrality on the Arab-Israeli conflict in favor of a pro-Arab stand gained the Philippines an exemption from the oil embargo. His dependence on Mid-East oil in turn has made Marcos that much more sensitive to the need to keep the Islamic world from condemning his Muslim policies.

Marcos' Muslim problems have also caused diplomatic difficulties with his Southeast Asian neighbors. Indonesia

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in particular is unhappy with the continuing tension between Manila and Kuala Lumpur over Marcos' charge that the Malaysian Government is aiding the rebels. Malaysian-Philippine relations were strained further when Marcos revived Manila's territorial claims to the Malaysian Borneo state of Sabah.

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